

BEAR RIVER HEAD START, INC.

FINANCIAL STATEMENTS

Years Ended January 31, 2005 and 2004

BEAR RIVER HEAD START, INC.  
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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Bear River Head Start, Inc.  
Logan, Utah 84321

We have audited the accompanying statements of financial position of Bear River Head Start, Inc. (BRHS) (a non-profit organization) as of January 31, 2005 and 2004 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of BRHS's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BRHS as of January 31, 2005 and 2004, and the changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 14, 2005, on our consideration of BRHS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of BRHS, taken as a whole. The supplementary information contained in Schedule 1 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



JONES SIMKINS, P.C.

April 14, 2005

**BEAR RIVER HEAD START, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**January 31, 2005 and 2004**

<u>Assets</u>	<u>2005</u>	<u>2004</u>
Current assets:		
Cash	\$ 131,545	44,494
Certificate of deposit	14,974	14,596
Prepaid expenses	2,290	-
Grants receivable	<u>422,944</u>	<u>447,289</u>
Total current assets	<u>571,753</u>	<u>506,379</u>
Other assets:		
Deposits	2,819	4,344
Equipment, net	<u>144,868</u>	<u>152,312</u>
Total other assets	<u>147,687</u>	<u>156,656</u>
Total assets	<u>\$ 719,440</u>	<u>663,035</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 47,287	94,319
Interest payable	925	806
Salaries payable	186,897	139,515
Accrued payroll taxes/benefits	30,365	29,382
Retirement payable	263,128	193,845
Other liabilities	68	11,500
Current portion of note payable	<u>4,851</u>	<u>2,201</u>
Total current liabilities	533,521	471,568
Note payable, less current portion	<u>17,398</u>	<u>22,216</u>
Total liabilities	<u>550,919</u>	<u>493,784</u>
Net assets:		
Unrestricted	<u>168,521</u>	<u>169,251</u>
Total liabilities and net assets	<u>\$ 719,440</u>	<u>663,035</u>

The accompanying notes are an integral  
part of these financial statements.

BEAR RIVER HEAD START, INC.  
STATEMENTS OF ACTIVITIES  
For the Years Ended January 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>Changes in unrestricted net assets</u>		
Unrestricted revenues		
Contracts and grants	\$ 4,096,339	4,029,553
In-kind contributions	546,677	526,707
Other	<u>17,730</u>	<u>10,921</u>
Total unrestricted revenues	4,660,746	4,567,181
Net assets released from restrictions	<u>-</u>	<u>-</u>
Total unrestricted revenues and support	<u>4,660,746</u>	<u>4,567,181</u>
Expenses:		
Program services:		
Utah Head Start	2,397,606	2,446,340
Idaho Head Start	814,523	729,791
Early Head Start	866,558	893,558
Idaho TANF	105,440	107,174
Other grants/Corporate funds	<u>51,557</u>	<u>26,167</u>
Total program services	4,235,684	4,203,030
Administration expenses	<u>425,792</u>	<u>383,752</u>
Total expenses	<u>4,661,476</u>	<u>4,586,782</u>
Decrease in unrestricted net assets	(730)	(19,601)
Net assets - beginning of year	<u>169,251</u>	<u>188,852</u>
Net assets - end of year	\$ <u><u>168,521</u></u>	<u><u>169,251</u></u>

The accompanying notes are an integral  
part of these financial statements.

BEAR RIVER HEAD START, INC.  
STATEMENTS OF FUNCTIONAL EXPENSES  
For the Years Ended January 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Salaries	\$ 2,319,384	2,305,342
Employee benefits	778,099	682,769
In-kind costs	546,677	526,707
Supplies and maintenance	217,568	280,506
Rent and utilities	205,677	198,723
Nutrition	124,130	117,021
Professional services	92,369	77,440
In-area travel	91,665	87,446
Training	62,457	99,311
Health	60,357	63,892
Parents	54,979	47,451
Insurance	46,463	40,336
Depreciation	38,316	40,667
Policy Council	15,036	12,842
Family service center	<u>8,299</u>	<u>6,329</u>
Total expenses	\$ <u><u>4,661,476</u></u>	<u><u>4,586,782</u></u>

(continued)

The accompanying notes are an integral  
part of these financial statements.

**BEAR RIVER HEAD START, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**For the Year Ended January 31, 2005**

	Program Services					Other grants/ Corporate Funds	Administration	2005 Total
	Utah Head Start	Idaho Head Start	Early Head Start	Idaho TANF				
Salaries	\$ 1,154,726	370,624	521,729	66,639	21,430	184,236	2,319,384	
Employee benefits	420,757	95,371	180,294	16,830	2,207	62,640	778,099	
Total personnel	1,575,483	465,995	702,023	83,469	23,637	246,876	3,097,483	
In-kind costs	298,376	224,885	11,255	-	-	12,161	546,677	
Supplies and maintenance	98,853	11,330	30,076	2,000	14,086	61,223	217,568	
Rent and utilities	121,836	17,278	43,008	3,049	4,457	16,049	205,677	
Nutrition	87,645	25,421	6,578	4,486	-	-	124,130	
Professional services	33,913	4,310	70	761	594	52,721	92,369	
In area travel	35,338	26,614	17,394	4,696	58	7,565	91,665	
Training	25,600	11,420	21,502	2,230	80	1,625	62,457	
Health	38,520	3,475	15,476	613	2,273	-	60,357	
Parents	30,957	8,684	8,537	1,533	5,268	-	54,979	
Insurance	21,856	7,740	5,800	1,366	609	9,092	46,463	
Depreciation	22,496	7,005	3,639	1,237	495	3,444	38,316	
Policy Council	-	-	-	-	-	15,036	15,036	
Family service center	6,733	366	1,200	-	-	-	8,299	
Total expenses	\$ 2,397,606	814,523	866,558	105,440	51,557	425,792	4,661,476	
							(continued)	

(continued)

The accompanying notes are an integral part of these financial statements.

**BEAR RIVER HEAD START, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**For the Year Ended January 31, 2004**

	Program Services					Other grants/ Corporate Funds	Administration	2004 Total
	Utah Head Start	Idaho Head Start	Early Head Start	Idaho TANF				
Salaries	\$ 1,132,639	381,417	528,133	69,285	13,605	180,263	2,305,342	
Employee benefits	371,949	97,205	143,362	14,818	4,547	50,888	682,769	
Total personnel	1,504,588	478,622	671,495	84,103	18,152	231,151	2,988,111	
In-kind costs	332,707	135,701	43,753	-	-	14,546	526,707	
Supplies and maintenance	173,177	7,486	41,622	4,994	1,953	51,274	280,506	
Rent and utilities	116,843	11,788	51,332	1,094	1,483	16,183	198,723	
Nutrition	79,416	24,048	9,734	3,823	-	-	117,021	
Training	67,711	9,863	19,295	1,536	51	855	99,311	
In-area travel	33,008	32,067	16,289	4,763	100	1,219	87,446	
Professional services	28,720	-	-	982	579	47,159	77,440	
Health	32,664	8,537	20,000	1,791	900	-	63,892	
Parents	31,009	6,478	6,849	1,396	1,719	-	47,451	
Depreciation	21,485	7,613	5,637	1,281	585	4,066	40,667	
Insurance	20,958	7,321	5,544	1,411	645	4,457	40,336	
Policy Council	-	-	-	-	-	12,842	12,842	
Family service center	4,054	267	2,008	-	-	-	6,329	
Total expenses	\$ 2,446,340	729,791	893,558	107,174	26,167	383,752	4,586,782	

The accompanying notes are an integral part of these financial statements.

BEAR RIVER HEAD START, INC.  
STATEMENTS OF CASH FLOWS  
For the Years Ended January 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>Cash flows from operating activities:</u>		
Change in net assets	\$ (730)	(19,601)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	38,316	40,667
(Increase) decrease in:		
Grants receivable	24,345	(269,468)
Deposits	1,525	(1,525)
Prepaid expenses	(2,290)	-
Increase (decrease) in:		
Accounts payable	(47,032)	57,397
Interest payable	119	39
Salaries payable	47,382	14,696
Accrued payroll taxes	983	(6,901)
Retirement payable	69,283	193,845
Other liabilities and deferred revenue	(11,432)	11,500
Net cash provided by operating activities	<u>120,469</u>	<u>20,649</u>
<u>Cash flows from investing activities:</u>		
Increase in certificate of deposit	(378)	(594)
Purchase of equipment	(30,872)	(13,928)
Net cash used in investing activities	<u>(31,250)</u>	<u>(14,522)</u>
<u>Cash flows from financing activities:</u>		
Payments on promissory note	(2,168)	-
Net cash used in financing activities	<u>(2,168)</u>	<u>-</u>
Net increase in cash	87,051	6,127
Cash and cash equivalents, beginning of year	<u>44,494</u>	<u>38,367</u>
Cash and cash equivalents, end of year	\$ <u><u>131,545</u></u>	<u><u>44,494</u></u>
 Cash paid for interest	 \$ <u><u>4,016</u></u>	 <u><u>466</u></u>

The accompanying notes are an integral  
part of these financial statements.

BEAR RIVER HEAD START, INC.  
NOTES TO FINANCIAL STATEMENTS  
January 31, 2005 and 2004

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Organization

Bear River Head Start, Inc., (BRHS) is a non-profit corporation, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Further, it has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code. The primary business activity of BRHS is to operate a Head Start program in Northern Utah and in Southeastern Idaho. BRHS is substantially funded by federal grants, receives a limited amount of State and local grants, and operates with only a minimal amount of corporate funds.

The program objectives of BRHS are to provide comprehensive health, education, nutrition, social and other services primarily to economically disadvantaged infants and preschool children and their families, and to involve parents in activities with their children so that the children will attain overall social competence. Parental participation in various decision making processes, related to the operations, is a key factor in the success of the program. Collaborative arrangements with other community agencies are actively established and are a second key factor in the success of the program, through which these objectives are met.

Additional objectives are to establish and operate any program which may improve the quality of life by reducing personal hardship, mobilizing personal resources, and combating community deterioration; to coordinate and integrate the efforts and resources of communities for remedying deficiencies and reducing impoverishment; to promote education and literacy, to improve employability, and to promote health through education and through integration with community resources; and to promote, where necessary, new solutions for those problems beyond resolution by existing resources.

Financial Statement Presentation

BRHS's financial statements are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Company is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, BRHS is required to present a statement of cash flows.

Cash

For purposes of the statement of cash flows, cash includes only deposits with an original maturity of less than three months.

BEAR RIVER HEAD START, INC.  
NOTES TO FINANCIAL STATEMENTS  
January 31, 2005 and 2004

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Receivables

BRHS receivables, which are unsecured, arise primarily from reimbursable grants with government entities. A receivable is recognized, up to the grant amount, when allowable expenses are incurred. Based on past experience, an allowance for uncollectible amounts is not considered necessary.

Contributions

Support that is restricted by contract or donor provisions is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other restricted support, if any, is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. No contributions have been recorded as restricted assets.

Donated Materials and Services

Donated materials and equipment, if any, are recorded as support at their estimated values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Donated services are recognized when the service either creates or enhances a non-financial asset or requires specialized skill that would be purchased if the service was not donated.

BRHS receives a substantial amount of services donated by parents or other non-specialized volunteers in carrying out BRHS' programs. During fiscal years 2005 and 2004, BRHS received approximately 91,000 and 97,000 hours of donated services by volunteers with an estimated fair value of \$916,992 and \$678,946 respectively. No amounts have been reflected in the financial statements for these donated services. Federal matching requirements are satisfied through the donated services of volunteers.

Equipment is stated at cost or, if acquired by gift, at the estimated fair market value at the date of gift. Equipment is defined as tangible personal property with an acquisition cost of \$5,000 or more per unit, a useful life of more than one year and BRHS has or expects to receive title to the asset. Other assets purchased with federal funds are expensed as purchased if BRHS determines that it is not probable that title to such assets will be transferred to BRHS.

Depreciation is provided over the estimated useful lives of the equipment using the straight-line method. Upon disposition of an asset, its cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized.

BEAR RIVER HEAD START, INC.  
NOTES TO FINANCIAL STATEMENTS  
January 31, 2005 and 2004

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Compensated Absences

Employees earn leave days each year based on length of service for use as vacation and personal leave. Vacation leave is earned after one year of full time employment or on a pro-rata basis for part-time employment. Vacation leave is forfeited at the end of the fiscal year. Therefore, no accrual has been made for vacation leave. Personal leave accrues at one day per month until ten days are earned. Unused personal leave is paid out at the end of the fiscal year at one-half of the employee's daily rate. An accrual for the personal leave to be paid out is included in accrued salaries.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2 – Concentration of Credit Risk

On January 31, 2005 and 2004, BRHS had demand deposits in excess of federally insured limits in the amounts of \$70,822 and \$9,300, respectively.

Note 3 – Certificate of Deposit

At January 31, 2005 and 2004, BRHS owned a certificate of deposit bearing interest at 3.15% and 2.57%, respectively. The certificate matures in January 2007.

BEAR RIVER HEAD START, INC.  
NOTES TO FINANCIAL STATEMENTS  
January 31, 2005 and 2004

Note 4 – Grants Receivable

At January 31, 2005 and 2004, grants receivable consisted of the following:

	<u>2005</u>	<u>2004</u>
U.S. Department of Agriculture	\$ 9,947	10,871
U.S. Department of Health and Human Services	375,167	386,011
Idaho Head Start Association	33,334	34,650
Other grant receivables	<u>4,496</u>	<u>15,757</u>
Total	\$ <u>422,944</u>	<u>447,289</u>

Note 5 – Equipment

At January 31, 2005 and 2004, equipment consisted of the following:

	<u>2005</u>	<u>2004</u>
Portable classroom	\$ 40,000	40,000
Equipment	110,335	99,732
Vehicles	<u>241,281</u>	<u>279,935</u>
Total equipment	391,616	419,667
Less accumulated depreciation	<u>(246,748)</u>	<u>(267,355)</u>
Equipment, net	\$ <u>144,868</u>	<u>152,312</u>

The equipment and vehicles were purchased with federal funds. However, BRHS expects to receive title to these assets at the end of their useful lives or upon disposal.

At January 31, 2005 and 2004, BRHS also had purchased fixed assets with federal funds and had fiduciary responsibility for those assets. The following is a summary of activity of these fiduciary assets to which BRHS does not expect to receive title.

	Balance <u>2/01/04</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>1/31/05</u>
Land	\$ 103,792	-	-	103,792
Buildings	142,401	-	-	142,401
Portable Classrooms	<u>478,204</u>	<u>-</u>	<u>-</u>	<u>478,204</u>
Total	\$ <u>724,397</u>	<u>-</u>	<u>-</u>	<u>724,397</u>

BEAR RIVER HEAD START, INC.  
NOTES TO FINANCIAL STATEMENTS  
January 31, 2005 and 2004

Note 6 – Note Payable

Note payable at year-end consisted of the following:

	<u>2005</u>	<u>2004</u>
Due to the Lewiston State Bank, collateralized by a portable classroom in Preston, Idaho, payable in annual installments of \$6,184 including interest at 6.0%, final payment due on March 1, 2009	\$ 22,249	24,417
Less current portion	<u>(4,851)</u>	<u>(2,201)</u>
Long-term portion	\$ <u>17,398</u>	<u>22,216</u>

The estimated principal portions due on the note payable for the next five years are as follows:

<u>Year Ending</u> <u>January 31,</u>	<u>Amount</u>
2006	\$ 4,851
2007	5,142
2008	5,450
2009	5,778
2010	<u>1,028</u>
Total	\$ <u>22,249</u>

Note 7 – Defined Contribution Plan

BRHS participates in a 403(b) retirement plan. Employees are immediately eligible to participate in the plan. The contributions are deposited into individual accounts. Each employee's individual account is available for withdrawal in its entirety at termination or death. The plan does not require matching funds from BRHS and BRHS has not made any matching contributions to the plan.

BRHS also participates in a Simplified Employee Pension Plan (SEP) that covers all employees who have reached the age of 18 and who had been an employee for 13 months of the immediately preceding 5 plan years. This plan allows BRHS to contribute up to 15% of the employees' salary on an annual basis, subject to Internal Revenue Service regulations. Contributions to the SEP plan for fiscal years 2005 and 2004 were \$263,128 and \$193,845 respectively.

BEAR RIVER HEAD START, INC.  
NOTES TO FINANCIAL STATEMENTS  
January 31, 2005 and 2004

Note 8 – Operating Leases

BRHS leases its Logan Center facility on an annual basis. Annual rent is based on actual space used at an agreed upon rate. The lease is renewable at the option of BRHS. During 2003, BRHS entered into a non-cancelable lease agreement for office space for Early Head Start, administration and child care connection. The lease commenced on November 1, 2003 and requires monthly rent payments ranging from \$5,450 to \$6,164 plus a proportionate share of utility charges based on square footage. A new lease commenced on August 1, 2004 for additional administration space and requires monthly payments ranging from \$3,198 to \$3,600 plus a proportionate share of utility charges based on square footage. The lease expires October 31, 2009. Rent expense for fiscal years 2005 and 2004 was \$125,306 and \$117,082, respectively.

Future minimum rental payments under the non-cancelable operating lease (excluding the utility charge) for each of the next five years are listed below.

<u>Year Ending</u> <u>January 31,</u>		<u>Amount</u>
2006	\$	105,018
2007		109,033
2008		113,084
2009		91,563
2010		<u>32,397</u>
Total	\$	<u>451,095</u>

Note 9 - Subsequent Event

Subsequent to year-end, BRHS entered into an agreement to sell land that had previously been purchased with a community development block grant (CDBG) and other grant funds. The agreed-upon sales price was \$89,500. As a condition of the sale, BRHS must refund 44% of the net sales proceeds to the CDBG program.

BEAR RIVER HEAD START, INC.  
STATEMENTS OF ACTIVITIES - GRANT BASIS  
For the Years Ended January 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Support:		
Contracts and grants	\$ 4,096,339	4,029,553
In-kind contributions	<u>1,463,669</u>	<u>1,205,654</u>
Total support	<u>5,560,008</u>	<u>5,235,207</u>
Expenses:		
Program services:		
Utah Head Start	2,842,851	2,756,621
Idaho Head Start	941,508	852,023
Early Head Start	1,209,052	1,119,184
Idaho TANF	104,203	105,893
Other grants	<u>40,046</u>	<u>21,834</u>
Total program services	5,137,660	4,855,555
Administrative expenses	<u>422,348</u>	<u>379,652</u>
Total expenses	<u>5,560,008</u>	<u>5,235,207</u>
Change in net assets	<u>-</u>	<u>-</u>
Reconciliation to GAAP basis:		
Interest income	802	993
Corporate income	16,928	9,928
Corporate expenses	(11,016)	(3,783)
Non-GAAP in-kind contributions	(916,992)	(678,946)
Non-GAAP in-kind costs	916,992	678,946
Equipment	30,872	13,928
Depreciation	<u>(38,316)</u>	<u>(40,667)</u>
Total reconciling items	<u>(730)</u>	<u>(19,601)</u>
Decrease in net assets	\$ <u><u>(730)</u></u>	<u><u>(19,601)</u></u>

BEAR RIVER HEAD START, INC

OMB CIRCULAR A-133 REPORTS

Year Ended January 31, 2005

BEAR RIVER HEAD START, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended January 31, 2005

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA No.</u>	<u>Award/ Contract Number</u>	<u>Award</u>	<u>Disbursements/ Expenses</u>
<u>U.S. Dept. of Health and Human Services (HHS)</u>				
Direct Program:				
2004-2005 Head Start	93.600	08CH0056/32	\$ 3,211,740	\$ 3,211,740
2004-2005 Head Start	93.600	10CH0174/02	639,479	639,479
Passed through the Idaho Head Start Association:				
Temporary Assistance for Needy Families	93.558	05-9010	105,443	59,994
	93.558	03-9012	105,422	44,209
Total Department of Health and Human Services				<u>3,955,422</u>
<u>U.S. Dept. of Agriculture</u>				
Passed through Utah State Office of Education				
Child Care Food Program	10.558	F-1	70,093	70,093
Child Care Food Program	10.558	KG	3,182	3,182
Passed through Idaho State Department of Education Child Nutrition Section				
Child Care Food Program	10.558	853	27,442	<u>27,442</u>
Total Department of Agriculture				<u>100,717</u>
Total Federal Awards			\$	<u><u>4,056,139</u></u>

BEAR RIVER HEAD START, INC.  
Notes to the Schedule of Expenditures of Federal Awards  
Year Ended January 31, 2005

Note 1 – Purpose of the Schedule

The Schedule of Expenditures of Federal Awards (the Schedule) is a supplementary schedule to the basic financial statements. The Schedule is required by the *U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2 – Significant Account Policies

Basis of Accounting

The information in the Schedule is presented in accordance with OMB Circular A-133. The Schedule is prepared using the same accounting policies and basis of accounting as the basic financial statements.

CFDA Numbers

OMB Circular A-133 requires the Schedule to show the total expenditures for each of the entity's federal financial assistance programs as identified in the Catalog of Federal Domestic Assistance (CFDA). The CFDA is a government-wide compendium of individual federal programs. Each program included in the CFDA is assigned a five-digit program identification number (CFDA number).

Major Programs

OMB Circular A-133 establishes a risk-based approach to determining which federal programs are major programs. The federal awards tested as major programs were those with a CFDA number of 93.600.

Matching Costs

The Schedule does not include matching expenditures.



Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
Bear River Head Start, Inc.  
Logan, Utah 84321

We have audited the financial statements of Bear River Head Start, Inc. (BRHS) as of and for the year ended January 31, 2005, and have issued our report thereon dated April 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered BRHS's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether BRHS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the board of directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



JONES SIMKINS, P.C.  
April 14, 2005



Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
Bear River Head Start, Inc.  
Logan, Utah 84321

Compliance

We have audited the compliance of Bear River Head Start, Inc. (BRHS) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended January 31, 2005. BRHS's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of BRHS's management. Our responsibility is to express an opinion of BRHS's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about BRHS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on BRHS's compliance with those requirements.

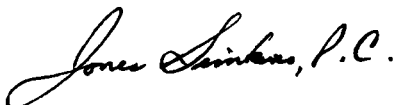
In our opinion, BRHS complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended January 31, 2005.

Internal Control Over Compliance

The management of BRHS is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered BRHS's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



JONES SIMKINS, P.C.  
April 14, 2005

BEAR RIVER HEAD START, INC.  
Schedule of Findings and Questioned Costs  
Year Ended January 31, 2005

A. Summary of Audit Results:

1.	Type of Report issued	Unqualified
2.	Reportable Conditions in Internal Control	None
3.	Material Non-compliance discovered	None
4.	Reportable Conditions in Internal Control Over Major Programs	None
5.	Compliance Report Issued	Unqualified
6.	Reportable findings under A-133	None
7.	Federal program tested as major programs	93.600
8.	Dollar threshold used to distinguish between Type A and Type B programs	\$ 500,000
9.	Auditee qualification as High or Low Risk	Low

B. Findings related to the financial statements required to be reported in accordance with Government Auditing Standards.

None

C. Findings and Questioned Costs for Federal Awards

None

BEAR RIVER HEAD START, INC.  
Summary Schedule of Prior Year Audit Findings  
(Client Submitted Document)  
Year Ended January 31, 2005

There are no unresolved findings.

BEAR RIVER HEAD START, INC.

Corrective Action Plan

(Client Submitted Document)

Year Ended January 31, 2005

No corrective action plan is needed because there are no findings in the current year.